

State of Alaska FY2007 Governor's Operating Budget

Department of Natural Resources Agricultural Development Component Budget Summary

Component: Agricultural Development

Contribution to Department's Mission

The Division of Agriculture, and Board of Agriculture and Conservation work to promote and encourage development of an agriculture industry in the state.

Core Services

The Division of Agriculture, in cooperation with industry representatives, the Commissioner of the Department of Natural Resources, and the Board of Agriculture and Conservation administers agricultural policy for Alaska. The division works to create opportunities by providing consistency and stability in state agricultural programs. The agricultural assets owned by the division are managed to promote economically viable development, maximize return to the state, and encourage privatization. The Director of the Division of Agriculture sets policy and manages the following programs:

- **Agricultural Development**, set Agriculture Policy and Administration. Provide Agricultural land to the industry through land disposals, leases, permits, and contracts. Provide Marketing Inspections services for Alaska Grown Agriculture Products.
- **North Latitude Plant Materials Center**, provide basic support for Alaska Agriculture Industry and other groups through testing, production and development of seed and plant materials at our PMC. Activities are further reported in the PMC Component.
- **Agricultural Revolving Loan Fund**, providing agricultural loans and managing ARLF assets. Activities are further reported in the ARLF Component.

Agriculture Land :

- Sell and lease agricultural and grazing land and conducts field inspection for contract compliance with farm development and farm conservation plans.
- Monitor approximately 90 land sale contracts for compliance with the terms and conditions.
- Monitor approximately 380 patented farms to ensure they comply with State regulations.
- Monitor approximately 30 grazing leases and permits on roughly 180,000 acres for compliance with terms and conditions of the lease and permits.
- Develop new statewide grazing policy and regulations for public lands classified for grazing purposes.
- Identify and initiate land disposal projects.
- Respond to written and verbal requests for agricultural land disposal and leasing information.
- Work with contract, and patent holders to update farm conservation plans.
- Work with Soil and Water Districts (SWCD) and NRCS to prepare federal and state conservation plans.
- Review and recommend updates in regulations for agricultural sales, pest control, branding, and grazing fees.

Alaska Grown/Marketing:

- Maintain develop and identify markets for Alaska Grown products.
- Develop new markets for farm products, both in state and for export.
- Maintain industry liaison with other government agencies to influence issues related to agricultural development in Alaska.
- Conduct feasibility studies.
- Maintain cooperative services with USDA conservation and lending agencies serving Alaska producers.
- Provide marketing, support and production expertise to Alaska growers to increase their ability to market Alaska grown products, and maintain viable farms.
- Work with USDA to increase in Federal funding of Environmental Quality Incentives Program (EQIP) and Wildlife Habitat Incentives Program (WHIP) conservation projects, and farm bill implementation through our participation in the National Association of State Departments of Agriculture (NASDA) and the Western Association of State Departments of Agriculture (WASDA).

Inspection :

- Inspection programs provide quality assurance of production.
- The entry of potentially harmful plants and products is regulated and controlled through inspection programs.
- Maintain USDA cooperative agreements in produce inspection, plant material, agricultural statistics, Federal Seed Act, shell eggs and phytosanitary certification for exports.
- Maintain federal licensed staff to comply with state and federal regulations. Inspection and grading services provide quality control for agricultural production.
- Conduct produce inspections for USDA grade and buyer specifications; provide field inspections for seed certification and disease control; issue phytosanitary certificates on export products from the agriculture industry; produce information and training on packaging and quality control.

End Results	Strategies to Achieve Results
<p>A: Assist in the development and expansion of the agriculture industry in Alaska.</p> <p><u>Target #1:</u> Expand gross farm product sales by 1%.</p> <p><u>Measure #1:</u> Percentage increase in value of agriculture products sold.</p>	<p>A1: Provide a land base for agriculture through continuing land disposals.</p> <p><u>Target #1:</u> Sell a minimum of 900 acres of agriculture land.</p> <p><u>Measure #1:</u> Number of acres sold.</p> <p>A2: Conduct plant industry regulatory inspection and certification activities in the following areas: Fresh fruit & vegetable, international phytosanitary, elk farm, shell egg and brands.</p> <p><u>Target #1:</u> Conduct ~ 600 inspections requested by industry to meet statutory, federal and international contract requirements.</p> <p><u>Measure #1:</u> Number of federal inspections completed.</p> <p><u>Target #2:</u> Conduct 100% of inspection services requested to meet statutory and state industry purchase contract requirements.</p> <p><u>Measure #2:</u> % of state inspection requests completed.</p> <p>A3: Provide marketing assistance to agriculture industry.</p> <p><u>Target #1:</u> Increase producer and retail participation in Alaska Grown programs by conducting 150 marketing actions and activities.</p> <p><u>Measure #1:</u> Number of completed marketing actions and activities.</p>

Major Activities to Advance Strategies	
<ul style="list-style-type: none"> • Help implement National Farm Bill through participation in NASDA and WASDA • Farm Bill priorities for Alaska are specialty crop, equip, Wildlife Habitat Improvement project and dairy support. • Set policy and manage the agricultural development program, the Northern Latitude Plant Materials Center, and the Agricultural Revolving Loan Fund. • Provide administrative support to the Board of 	<ul style="list-style-type: none"> • Maintain State Plant Health Programs to deliver pest exclusion and monitoring programs to support trade. • Issue phytosanitary certificates for export products. • Provide for organic product certification. • Continue Cooperative Marketing Program • Provide marketing assistance to farmers through information transfer. • Manage Alaska Grown program. • Assist farmer markets with promotional efforts.

Major Activities to Advance Strategies

- Agriculture and Conservation.
- Prepare land sales and work with the Board of Agriculture and Conservation and Soil and Water Districts to accomplish land disposals.
- Adjudicate lease and permit applications.
- Develop new statewide grazing policy and possibly new regulations.
- Provide inspections for elk farming to meet statutory requirements.
- Conduct produce inspections for USDA grade and buyer specifications.
- Cooperate with USDA to provide shell egg surveillance.
- Provide meat grading services as requested.
- Assist seed growers with market development.
- Encourage use of Alaska Grown products by state and federal agencies.
- Monitor compliance with local purchase practice, statutes and regulations.
- Train staff in organic program management.

FY2007 Resources Allocated to Achieve Results

FY2007 Component Budget: \$1,859,000

Personnel:

Full time	14
Part time	0
Total	14

Performance Measure Detail

A: Result - Assist in the development and expansion of the agriculture industry in Alaska.

Target #1: Expand gross farm product sales by 1%.

Measure #1: Percentage increase in value of agriculture products sold.

% Change and Monetary Value of Agriculture Products Sold In Million dollars

Year	Percent	YTD Total
2001	0	\$26.5
2002	0.87%	\$30.2
2003	0.98%	\$30.7
2004	-1.0%	\$30.3
2005	0.97%	\$31.2

Analysis of results and challenges: The national averages have struggled over the last five years to show any net increase. Because Alaska agriculture is still in a development phase we hope to show small annual increases. Poor weather conditions statewide in 2004 resulted in the minor decrease in the value of products sold. The division shows an increase in 2005 due to record setting weather and growing conditions.

A1: Strategy - Provide a land base for agriculture through continuing land disposals.

Target #1: Sell a minimum of 900 acres of agriculture land.

Measure #1: Number of acres sold.

Acres of agriculture land sold

Year	YTD Total
2001	3,302
2002	0
2003	1853
2004	3,114
2005	847*

Analysis of results and challenges: *The requirement for appraisals and surveys to develop and sell land including litigation resulted in less land being sold in FY05

A2: Strategy - Conduct plant industry regulatory inspection and certification activities in the following areas: Fresh fruit & vegetable, international phytosanitary, elk farm, shell egg and brands.

Target #1: Conduct ~ 600 inspections requested by industry to meet statutory, federal and international contract requirements.

Measure #1: Number of federal inspections completed.

Federal Inspections Completed

Year	FPC	FV-300	FV-301	YTD Total
2002	23	153	580	756
2003	14	150	652	816
2004	17	146	359	522
2005	23	176	396	595

FPC - Federal Phytosanitary Certificates

FV-300 - Commercial produce inspections

FV-301 - Military & institutional produce inspections

Analysis of results and challenges: The Phytosanitary certificates, FV300 AND FV301 are federal programs and the figures are based on the federal calendar year. These federal programs and inspections cover three areas. 1) Federal Phytosanitary Certification, (FPC) inspections and certifications are required by importing countries as a condition to export Alaskan plant products – these inspections cover over \$20 million dollars of forest and agricultural products. 2) FV300 federal inspections are requested by Alaska produce businesses as an official evaluation of produce for which a commerce claim has been made. These are legal documents in a court of law and represent approximately \$7.5 million dollars of produce. 3) FV301 federal inspections are requirements of sales to federal institutions, some state institutions and determine if contracted quality and specifications are met on specified product. These inspections represent approximately \$15.6 million dollars of products annually.

These three federal inspection program activities are required by government or private purchase contracts for commercial sales activity to occur.

Target #2: Conduct 100% of inspection services requested to meet statutory and state industry purchase contract requirements.

Measure #2: % of state inspection requests completed.

State Inspections Completed

Year	Elk Farm	AK Grown	YTD Total	Target
2002	2	35	37	100%
2003	8	26	34	100%
2004	1	17	18	100%
2005	2	16	18	100%

Elk Farm= Elk Farm inspections & licenses

AK Grown=Alaska Grown User Applications

Analysis of results and challenges: These state level inspections are to monitor compliance with state

programs. Elk farm inspections are required by statute AS 03.05.075 and occur at least bi-annually and may fall outside of the state fiscal calendar for reporting purposes. Alaska Grown program inspections fluctuate as new programs and products enter the market place.

A3: Strategy - Provide marketing assistance to agriculture industry.

Target #1: Increase producer and retail participation in Alaska Grown programs by conducting 150 marketing actions and activities.

Measure #1: Number of completed marketing actions and activities.

Analysis of results and challenges: Consumers research indicates that 70% of population is now familiar with Alaska Grown products. This is an increase of 10% in two years.

Activities which contributed to this increase in awareness:

121 Food service and retail market consultations

17 Farmers market assistance projects and meetings

10 presentations of Alaska Grown display and products to fairs, conferences and expos.

Key Component Challenges

Alaska agriculture is experiencing the effects of a global market place that is introducing marketing efficiencies such as blanket national pricing policies by large retail chains. Additional challenges facing the industry include state policies such as the Women and Infant and Children (WIC) program. The WIC policy allows purchase of only the cheapest dairy products. Such policies give retailers additional control over what kind of milk can be purchased by the consumer. While local Alaska dairy products are sold to retailers at competitive wholesale prices, retailers price local brands higher with the knowledge that the demand for local product is tremendous. The end result is a gain for the retailer and significant financial losses for local dairies (Matanuska Maid, Northern Lights). Because of these dynamics the Division of Agriculture is focusing a great deal of attention on developing local and quality consciousness in the Alaska market place. We are doing this through the Alaska Grown program and support of the farmer's markets which are very valuable as education incubators where farmers and the public interact directly. These markets introduce up to 80 different Alaska Grown varieties which are largely unavailable in the retail stores. Eventually many of these products find their way into the local retail outlets. The states ownership and management of the Alaska Grown program has been challenged by a local chapter of the Farm Bureau and the Division will be forced to defend that program for the use and benefit of the farm community state-wide.

Another challenge is in the area of land disposals. The next sizable agriculture parcels are in Fish Creek in the Mat Su Valley. The best access to Fish Creek is through Mat Su Borough property. A challenge in the area of land disposal is a resistance to land sales in this area. Tremendous growth in the Mat Su Valley has provided significant competing pressures on local government to balance planning and zoning for multiple uses including residential and industrial development. There is a huge demand for small to mid sized farm parcels by young farm family entrepreneurs. Fish Creek has the potential of becoming an incubator for the small to mid sized farm that will support young families, feed into the farmer's markets, and also consume the feed produced on the larger existing agriculture projects.

Another of our challenges is the current standoff between the South Central dairy producers and the processor. The Mat Maid processing facility is old and poorly located but upgrading will be politically difficult with the feelings that currently exist between the producers and the processor.

Another challenge is breaking Alaska Grown products into the huge state institution markets. Despite the Alaska Grown preference laws we suspect that a minimum of products going into the state institutions are Alaska Grown. It has been very frustrating to document this situation but one that we are working on.

The potato industry was challenged by a serious bout of potato late blight in the 2005 crop season. This has triggered a flurry of agency responses and coordination with the farmers and will require close attention in the 2006 season to avoid another outbreak.

Significant Changes in Results to be Delivered in FY2007

Plant Protection Projects (Federal) USDA plant protection issues have resulted in federal projects and funding for

Alaska and the Division of Agriculture. This funding will continue into FY07.

- Core Project: (\$150.0).
- Alaska Swede Midge Survey: (\$10.0).
- Alaska Gypsy and Forest Moth Detection Project: (\$55.0).
- Alaska Monochamus and Pine Wilt Survey: (\$7.5).

Decrement Marketing / Organics (\$86.4) ARLF - In an effort to reduce the draw on ARLF funds the director has requested this funding decrement to the Marketing / Organic program.

This reduction will limit the Divisions response in developing an Alaska certified organic program. The Division will attempt to maintain agreements with Washington State to provide organic certification of Alaska farms. Funding reductions will restrict Alaska's ability to improve organic farming programs and limit Division staff exposure to national organic certification training programs and will restrict information delivery on USDA organic program grant funding opportunities.

Funding reductions will reduce the delivery of marketing program services. Through a summer short term non-perm position, the division delivers services to 14 Farmers Markets statewide and monitors Alaska Grown user program compliance with producers, and retail markets. Cooperative Marketing projects are monitored for program compliance and project deliverables are monitored by the non-perm position.

Major Component Accomplishments in 2005

The Director was seated on February 1, 2005. Immediately he began to address financial issues detracting from sustainability in both in the industry and in the department. We worked with the administration and legislature and located \$500,000 to implement the Dairy Price Support Program providing \$2.00 per hundred-weight to dairy producers for Alaska produced milk purchased by the Matanuska Maid Dairy in Southcentral Alaska and Northern Lights Dairy in the Northern region of Alaska. This program was a measure to bridge them to a business plan and an eventual resolution to a more efficient bottling plant.

Improved efficiencies of Mt. McKinley Meat which resulted in reduced budget losses of approximately \$150.0.

We finalized a settlement agreement on a failing dairy facility and turned that around to sell in less than 90 days for \$2.3 million dollars.

We succeeded in selling a repossessed meat plant in Fairbanks that had been leased for many years at marginal to negative returns to the state.

Inspection / Alaska Grown Marketing

Our inspectors facilitated export of the first shiploads of timber from South East Alaska to China. This work has facilitated sales of over 15 million dollars of Alaska timber to China alone in 2005.

The feasibility study of a Nutrition Center and Vegetable Processing Center has determined that processing can be done to increase the usage of value added products by Alaska institutions and provide more nutrition simultaneously. The study includes school districts, state entities, and the military.

Provided a matching cooperative marketing grant program and farmers market advertising grant program that helped producers make Alaska Grown products more visible to the public. The Division awarded 18 matching grants for private industry to market their Alaska Grown products. These projects required a minimum of a 50% dollar match by private industry. This program is funding many projects, from nursery projects to organic beef products and establishing farmers markets across Alaska. The CMP program is estimated to influence sales of over \$2.6 million dollars of Alaska Grown products.

The Division of Agriculture assisted producers in organic certification by cooperating with USDA to provide funding assistance for certification. In 2005 the Division assisted in the organic certification of 6 farms and 3 processors statewide. This is a 50% increase in certified farms and a 33% increase in processors. The Division cooperated with the Washington State Department of Agriculture to provide Alaska producers a certification program. Without this certification Alaskans would not be able to sell their products as certified organic. Sales of Alaska produced organic products are estimated at \$1.3 million.

By identifying and influencing demands for Alaska Grown products, the Division of Agriculture worked to keep the market share of Alaska agriculture products. Worked to ensure quality grading, and to facilitate commercial transactions between producers, processors, wholesalers, and retailers based on sound market information.

Produced an attractive Alaska Food and Farm directory documenting 350 farms and their products which is available in both hard copy, compact disc or on our web page.

Agriculture Land

Sold a total of 758 acres of Title 38 agricultural property, with a return to the state of approximately \$204,500. Held one ARLF land sale with a return to the state of \$95.0. Held two equipment sales with a return to the state of \$23.5.

Performed 77 agriculture land inspections and processed 2 new grazing lease applications. One parcel is under a short term haying permit. There were new Farm Conservation Plans completed and approved for each of the new agriculture (12) parcels sold.

Statutory and Regulatory Authority

AS 03, AS 03.09, AS 03.10, AS 03.22, AS 38.05, AS 41.10, AS 41.17

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Agricultural Development Component Financial Summary

All dollars shown in thousands

	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	891.1	1,086.4	1,170.6
72000 Travel	40.7	50.5	50.5
73000 Services	513.2	1,063.8	564.2
74000 Commodities	65.8	66.7	66.7
75000 Capital Outlay	3.4	24.0	7.0
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	1,514.2	2,291.4	1,859.0
Funding Sources:			
1002 Federal Receipts	314.3	545.4	559.1
1004 General Fund Receipts	647.6	710.7	737.7
1005 General Fund/Program Receipts	0.0	1.5	1.5
1007 Inter-Agency Receipts	5.6	0.0	0.0
1021 Agricultural Loan Fund	68.1	211.4	129.3
1108 Statutory Designated Program Receipts	3.0	50.0	0.0
1153 State Land Disposal Income Fund	338.8	409.2	431.4
1188 Federal Unrestricted Receipts	136.8	363.2	0.0
Funding Totals	1,514.2	2,291.4	1,859.0

Estimated Revenue Collections

Description	Master Revenue Account	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
Unrestricted Revenues				
State Land Disposal Income Fund	51434	85.2	307.1	64.0
Unrestricted Fund	68515	0.1	0.1	0.1
Unrestricted Total		85.3	307.2	64.1
Restricted Revenues				
Federal Receipts	51010	451.1	908.6	559.1
Interagency Receipts	51015	5.6	0.0	0.0
General Fund Program Receipts	51060	0.0	1.5	1.5
Statutory Designated Program Receipts	51063	3.0	50.0	0.0
State Land Disposal Income Fund	51434	338.8	409.2	431.4
Restricted Total		798.5	1,369.3	992.0

Estimated Revenue Collections				
Description	Master Revenue Account	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
Total Estimated Revenues		883.8	1,676.5	1,056.1

**Summary of Component Budget Changes
From FY2006 Management Plan to FY2007 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2006 Management Plan	712.2	908.6	670.6	2,291.4
Adjustments which will continue current level of service:				
-ADN 10-6-5000 Dairy Industry Price Support Sec56(a) Ch3 FSSLA2005 P135 L12 Lapse date 06/30/09	0.0	-363.2	0.0	-363.2
-FY 07 Wage Increases for Bargaining Units and Non-Covered Employees	8.1	4.1	8.0	20.2
-FY 07 Health Insurance Cost Increases for Bargaining Units and Non-Covered Employees	1.1	0.5	0.9	2.5
-FY 07 Retirement Systems Cost Increase	15.0	7.7	14.9	37.6
Proposed budget decreases:				
-Reduction to the Marketing / Organics Program	0.0	0.0	-86.4	-86.4
-Reduction in SDPR authorization for Vegetable Processing Center agreement with Mat-Su Borough	0.0	0.0	-50.0	-50.0
Proposed budget increases:				
-Risk Management Self-Insurance Funding Increase	2.8	1.4	2.7	6.9
FY2007 Governor	739.2	559.1	560.7	1,859.0

Agricultural Development Personal Services Information

Authorized Positions			Personal Services Costs	
	<u>FY2006</u> <u>Management</u> <u>Plan</u>	<u>FY2007</u> <u>Governor</u>		
Full-time	14	14	Annual Salaries	744,834
Part-time	0	0	COLA	20,607
Nonpermanent	0	0	Premium Pay	1,445
			Annual Benefits	428,493
			Less 2.07% Vacancy Factor	(24,779)
			Lump Sum Premium Pay	0
Totals	14	14	Total Personal Services	1,170,600

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Administrative Assistant	0	0	0	1	1
Administrative Clerk II	0	0	0	1	1
Administrative Manager II	0	0	0	1	1
Agricultural Inspect I	0	1	0	2	3
Dev Spec I, Option B	0	0	0	1	1
Dev Spec II, Option B	0	0	0	1	1
Division Director	0	0	0	1	1
Natural Resource Mgr II	0	1	0	0	1
Natural Resource Spec II	0	1	0	2	3
Natural Resource Spec III	0	0	0	1	1
Totals	0	3	0	11	14